

# Stages in Learning to be a Good Investor

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We start out as investors with minimal knowledge. Most of us start by learning how the market operates and the characteristics of the various securities available for investment. The ASX is an excellent source of information at this point.

The next stage is usually to start learning analysis. This should be both fundamental analysis and technical analysis. Their relative importance will vary whether we plan to be investors (seeking a total return from an income stream plus capital growth) or speculators, aka traders, (seeking capital growth through exploitation of price change over time). Everyone starts out looking for something simple, but soon discovers that there is no such thing. This is part of the normal learning process.

The next stage is very important. We become aware of the importance of risk and money management. This is the missing element that is the difference between a struggling beginner and a seasoned investor or trader who is learning to control risks and the consequent losses. Money management is the essential difference between beginners, who know a little, and hardened investors who have learned in the classroom called the market, where punishments for ignorance are doled out in the form of losses.

The final stage is one that all beginners reject as not applicable to them. They will resist it for as long as they can, until reality sinks home in their still falling account balance. This last stage is when we become aware of ourselves and the way we think and make decisions. The best investors have become so because they think differently to the uninitiated. We all suffer from biases and logical errors in the way we think. We learn our thinking processes from those around us and most people think they always make logical and correct decisions when the truth is that they do not. It affects us all (myself included) and this is the single most important stage in our growth as investors as well as being the most difficult. At some point we move from denial to realisation that the last frontier in our development as investors or speculators is what takes place inside our brains.

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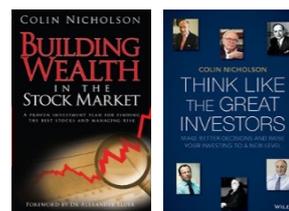
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